HAWAII'S ECONOMY

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Hawaii Tourism in Transition

This issue of Hawaii's Economy explores the relationship of tourism to Hawaii's economy. The article below summarizes the current status of Hawaii's visitor industry and how it is changing. Other articles look at the industry's economic impact and four major issues facing Hawaii's tourism sector.

Hawaii is currently recovering from its worst tourism slump in the post–World War II era. Between 1990 and 1993, total visitor arrivals to the state fell by 847,000, or 12 percent, while visitor expenditures shrunk by $2 billion to $8.7 billion. Fortunately, tourism growth began to recover in 1994 and arrivals will probably surpass previous records by the end of this year.

Despite the recent recovery, the severity of the 1990–1993 decline has raised concerns about the underlying health of Hawaii's post-statehood tourism industry. This article looks at some key changes that have taken place in Hawaii's visitor markets and how these changes help explain tourism's performance of the past several years. It concludes that the most important change has been the long-term slowing of arrivals from Hawaii's westbound (mainly U.S.) visitor market, which was countered only partially by continued growth of eastbound visitors from Japan and other Asian nations. While the U.S. market remains the largest source of tourism to Hawaii, its poor performance has resulted in a slowdown for tourism as a whole. Moreover, most of the increase in eastbound tourism has occurred on Oahu rather than the Neighbor Islands. The decline of westbound tourism and the lack of Neighbor Island trips by eastbound visitors had a disproportionately negative impact on Neighbor Island economies.

Long-Term Growth Trends

From the early 1950s to the 1980s, Hawaii enjoyed a burgeoning popularity as a sun-and-surf vacation destination—first by westbound visitors from the U.S. mainland and Canada, and later by eastbound visitors mostly from Japan (Figure 1).

Before World War II, Hawaii's visitor industry was limited mainly to those who could afford the time and cost of a luxury ocean voyage. However, in the 1950s and 1960s, the time and cost of vacationing in Hawaii began falling significantly thanks in large part to bigger and faster long-haul passenger aircraft, and as a result, visitor arrivals to Hawaii increased at about 20 percent annually (Figure 2). Eastbound visitors from Asia and the Pacific grew even faster although their numbers were relatively small.

Visitor arrivals first broached the 100,000 level in 1955. It took twelve more years to reach the 1 million visitors per year level (1967), but only five years more to reach the 2 million mark. Thereafter, annual arrivals increased by more than a million every four to five years to a peak of nearly 7 million in 1990.

Despite the growth in numbers, the average growth rate of visitor arrivals has tapered off over the years. In the 1970s, annual growth in arrivals averaged about 8 percent and in the 1980s, growth slowed to a 6 percent pace. While these rates reflect continued healthy expansion, the fluctuations in arrivals were more noticeable at these more moderate growth rates. Recession and financial difficulties at the national level in the early 1980s slowed westbound tourism and caused overall visitor arrivals to level out at about the 4 million mark from 1979 through 1981. Growth resumed until 1991, when the industry began its worst post–World War II slump. Total arrivals declined an average of about 4 percent per year between 1990 and 1993, and 12 percent overall.

Paralleling the overall slowing of growth in arrivals has been a redistribution of tourism geographically among the counties. The 1980s in particular saw a substantial gain in the proportion of visitor rooms on the Neighbor Islands. From about 37 percent in 1980, the Neighbor Islands' share of the state's total visitor rooms increased to 49 percent in 1992, just before Hurricane Iniki.

The Shift From Westbound to Eastbound Tourism

The westbound visitor market has consistently contributed the greatest number of visitors to the state. U.S. visitors make up about 82 percent of the westbound market and tend to dominate its trends. California visitors alone make up 31 percent of all westbound visitors. In recent years, the number of westbound travelers as a proportion of total visitors has declined due to the stronger growth in the eastbound market. As Figure 1 shows, westbound visitor arrivals peaked in 1990 and fell each year thereafter, except 1994. As a result, westbound arrivals in 1995 were only slightly above the 1985 level.

By contrast, eastbound travel has become a vitally important market to Hawaii, increasing from around 10 percent of the market in the early 1950s to 40 percent in 1995 (Figure 3). About 70 percent of eastbound travelers are Japanese. Since 1980, eastbound arrivals have declined in only one year, 1993, while westbound arrivals have declined in eight of the last fifteen years.

The differing growth trends of westbound and eastbound visitor arrivals help to clarify the source of Hawaii's most recent visitor industry slump. Table 1 shows the changes in visitor arrivals from the two directions of travel. From the last peak count of total visitors in 1990, westbound visitor arrivals fell 20 percent by 1993. Eastbound arrivals, on the other hand, increased by 5 percent over that period. Even with the recent recovery, westbound arrivals in 1995 were still 16 percent below the 1990 peak, while eastbound arrivals were 18 percent above

Figure 1. Visitors to Hawaii, 1951–1995

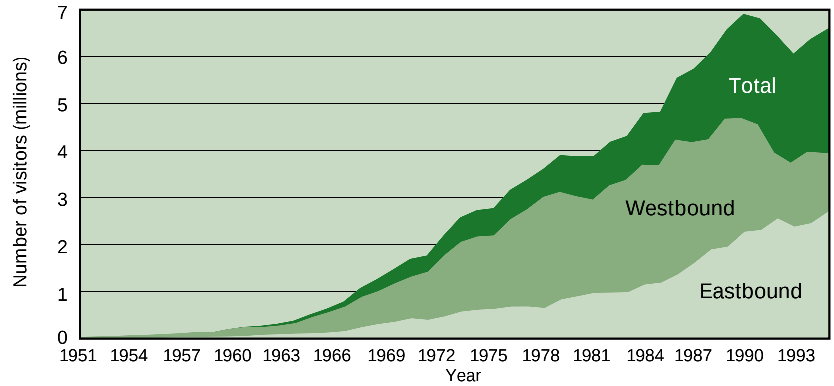

Figure 2. Growth in Visitor Arrivals, 1951–1995 (Annual percentage change for the period)

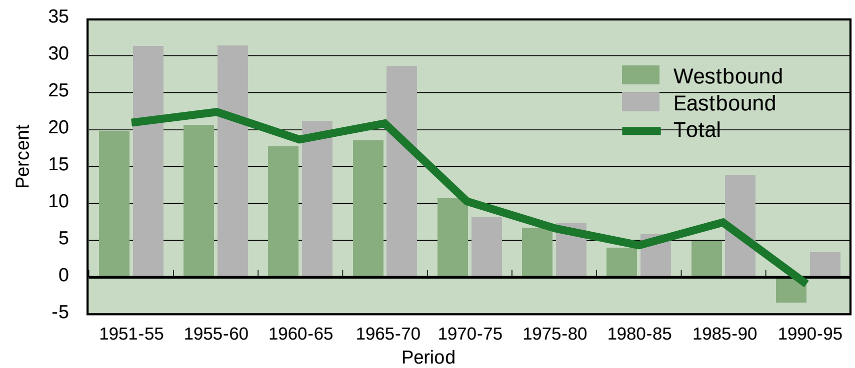

Figure 3. Share of Eastbound & Westbound Arrivals, 1951–1995

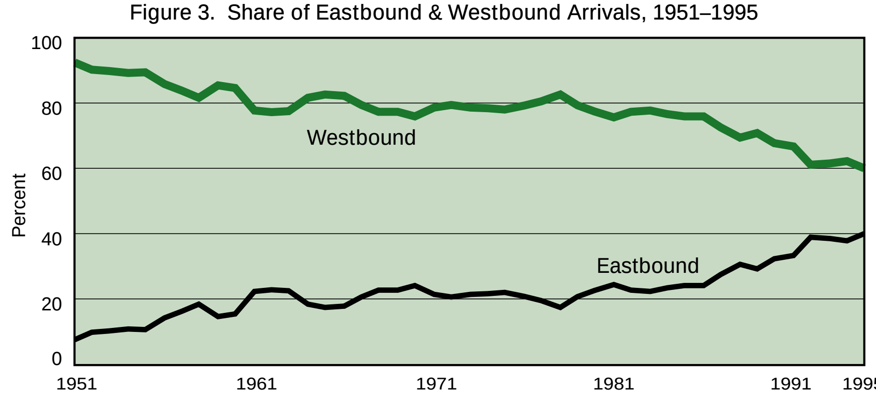

Table 1. Change from Peak Year by Market

	Westbound		Eastbound		Total	
Year	Arrivals	Change from Peak (%)	Arrivals	Change from Peak (%)	Arrivals	Change from Peak (%)
1990	4,719,730	–	2,251,450	–	6,971,180	–
1991	4,584,460	-2.9	2,289,430	1.7	6,873,890	-1.4
1992	3,980,120	-15.7	2,533,760	12.5	6,513,880	-6.6
1993	3,764,520	-20.2	2,359,710	4.8	6,124,230	-12.1
1994	3,997,820	-15.3	2,432,480	8.0	6,430,300	-7.8
1995	3,977,820	-15.7	2,656,020	18.0	6,633,840	-4.8

their 1990 level. As a result of this mix, total arrivals in 1995 were 5 percent below the 1990 peak.

Thus, it is clear that the declines in tourism in the early 1990s have been entirely the result of an erosion of demand for Hawaii in the westbound (mainly U.S.) market, which could not be offset by healthy increases in visitors from Japan and other Asian markets.

Causes of the Decline in the U.S. Market Share

Market Maturity

The exact reasons for the poor performance of the westbound market are not completely clear. Even the formidable marketing expertise of the many world-class hotel and airline firms serving Hawaii have been unable to find the key to reversing the decline in the U.S. market. From a long-run point of view, Hawaii as a vacation product may have reached maturity with respect to the westbound direction of travel, particularly for California which provides nearly a third of the westbound total. Hawaii's market maturity is partly reflected in the increasing proportion of repeat visitors. As Hawaii's tourism industry emerged in the 1950s, roughly 75 percent of all visitors were on their first trip to Hawaii. However, in 1994 only 34 percent of U.S. visitors to Hawaii were first-timers. (By comparison, 56 percent of Japanese visitors were first-timers to Hawaii in 1994.)

Such a maturing is not unexpected. Most products on the market are subject to a product life cycle which begins with a surge of interest in a new product (assuming the product fills a need), followed by a mature stage of slower growth as competitive products are introduced and the product's long-term market share is reached. This phase may be followed by declining market share if the product cannot adapt to changing consumer desires and tastes.

Sometimes a product in the mature stage can be "reinvented" to widen its appeal and stimulate growth by broadening its market. Services such as tourism may be particularly adept at this kind of transformation. For instance, in response to the proliferation of gaming activity in other states, Las Vegas has developed theme parks and family-oriented entertainment to reposition itself and attract new markets.

Other Factors

There are other specific factors that have contributed to the poor performances of the westbound U.S. visitor market in recent years. These include:

- A prolonged recession in California, Hawaii's most important mainland market. California suffered nearly a decade of cutbacks in aerospace, defense, and high technology, although the worst of that appears to be over.
- Changes in the structure of the commercial air transportation system that have favored high-volume, medium-distance routes over long-haul routes in terms of fares and seat availability.
- Competition from emerging resort destinations in Mexico, Florida and the Caribbean, as well as alternative forms of recreation such as major theme parks and perhaps the lure of gaming, which has spread to many new locations in the U.S.
- Slower growth in per capita income over the past decade which has probably reduced the growth potential of the U.S. market.
- A more crowded advertising market in which Hawaii's promotional message may not be breaking through the communications "noise" of stepped-up ad campaigns from new and existing resort destinations, as well as other vacation travel choices.

Thus Hawaii, as a sun-and-surf destination, may have passed beyond the market expansion stage and reached its long-term share of the westbound market, at least in the western U.S. cities with direct air service to Hawaii. This is not to say that the growth potential of the westbound market for Hawaii is over. As the economics of travel and competitive advantages change over time, Hawaii must be able to adapt to new conditions in the market. Further growth will be tied to increases in income, tastes, and meeting the price and quality of the competition.

Impact of Tourism's Changing Structure

The economic effects of the changing market mix from U.S. to Japanese and Asian visitors are important. For one, U.S. visitors tend to stay longer on average than do Japanese visitors (about 10 days vs. 6 days). Length of stay affects the number of visitors present in Hawaii on a given day which is, in turn, an important factor for hotel occupancy, profitability, and ultimately job creation in the tourism industry. Given their shorter average lengths of stay, it takes about five Japanese visitors to replace the number of visitor days generated by the loss of three U.S. visitors. Thus, one consequence of the changing mix from westbound towards proportionately more eastbound tourism has meant slower growth for hotels.

A factor that tends to offset the shorter length of stay for Japanese is their higher rate of spending—$341 per day in 1994 compared with $133 per day for U.S. visitors. Thus, although their stay is shorter, Japanese visitors spend around $2,000 per person during their entire stay in Hawaii, compared with about $1,300 for U.S. visitors. The ultimate impact on the economy of this higher level of spending by the Japanese is diminished somewhat by the higher amount they spend on shopping for goods such as clothes and personal items, most of which are not made in Hawaii. On average, the Japanese spent about $113 per day for these items compared to only $16 per day spent by U.S. visitors. Nevertheless, spending by Japanese visitors exceeds U.S. visitor spending per day in almost all other categories.

Within the westbound visitor market, the trend towards more repeat visitors has tended to depress growth in westbound visitor spending. This is because repeat visitors tend to take in fewer attractions and tours, and spend about 13 percent less overall (in 1993) than first-time visitors.

Finally, one of the most serious economic consequences of the state's changing visitor mix has been its impact on the Neighbor Islands, which are having difficulty attracting the emerging eastbound Asian markets. Only about 29 percent of statewide eastbound visitors include a Neighbor Island visit in their Hawaii trip; as a result Oahu reaps most of the benefits of this growing market. By contrast, about 89 percent of statewide westbound arrivals visit the Neighbor Islands. In the recent years of declining westbound visitors, this dependence has hurt the Neighbor Island economies.

A surge in Neighbor Island hotel construction in the late 1980s and early 1990s, combined with the recent lack of Neighbor Island tourism growth, has resulted in a substantial inventory of underutilized visitor accommodations. On the other hand, Oahu, the prime focus of current eastbound visitor growth, is quickly reaching the capacity of its existing room inventory. (The magnitude of this visitor distribution problem for the Neighbor Islands and options for dealing with it are discussed in the accompanying article on tourism issues.)

Other Emerging and Potential Visitor Markets and Opportunities

Asia

Accommodating the shift in the visitor mix from U.S. to Japanese visitors is not the only adjustment Hawaii's visitor industry will need to make if it is to maintain growth. The economic growth of the Asian region beyond Japan is laying the foundation for new and vast visitor markets in the years ahead.

Even now, the fastest-growing markets for Hawaii tourism are in Asia. Almost unnoticed during the declines in the westbound market since 1990 has been the upsurge in arrivals of visitors from Asia other than Japan, especially Korea. Visitors from the Asian region, not including Japan, now account for about 5 percent of total visitors to the state. In the emerging travel environment of the 21st century, there is expected to be a major shift to Asia-Pacific dominance in travel. With 25 percent of worldwide air travel in 1985, Asia-Pacific air travel is forecast to rise to a 40 percent share by the year 2000. The International Air Transport Association projects that passenger movement in the Asia-Pacific will increase 6 percent each year up to year 2010.

For Hawaii to fully tap into this growth will require the elimination or easing of some barriers to travel such as restrictions on airline flights and the lack of a comprehensive visa waiver program beyond that established for the Japanese. It is estimated that Korean tourism alone could double with a visa waiver program.

Europe

This is not to say that visitors from other countries such as those in Europe will not be important for Hawaii in the future. In fact, visitors from Germany and France also showed significant growth during the 1990–1994 period with average annual increases of 15 and 9 percent, respectively. But in terms of ultimate market potential and proximity, emerging Asia is Hawaii's most likely source of significant tourism growth in the next century.

Canada

The Canadian market remains somewhat problematic as a source of future tourism growth for Hawaii. It is a potentially large market and Canada currently contributes a significant 5 percent of visitor arrivals to Hawaii, mainly during the winter months. In addition, Canadians stay an average of about 13 days, about 30 percent longer than U.S. visitors. However, the Canadian market has shown no long-term growth over the past decade. There may be some opportunity to tap into the summer market for Canadian travel which is their peak outbound season.

New Market Niches

In addition to changes in the geographical origin of visitors, Hawaii is learning that there are abundant opportunities in the development of tourism products for specialty and niche markets that will attract new visitors. These products and markets include golfing, scuba diving, cultural tourism, adventure tourism, meetings and conventions, and health-related services and facilities. In particular, enhancements such as the convention center and other novel attractions that add new dimension to Hawaii's traditional experience may spur some additional growth in the lagging westbound market and rejuvenate its contribution to tourism growth.

Hawaii has already succeeded in becoming one of the world's largest shopping destinations for Asian tourists. Despite the opening of Japan's markets to foreign goods, factory outlet malls such as the Waikele Factory Stores still offer significantly lower prices for identical products in Japan, and Japanese visitors continue to shop here. Hawaii's growing reputation as a shopping destination could be enhanced by the addition of more brand-name "specialty" stores that are not currently represented in Hawaii. Many of the 200 or so mainland retailers not yet in the state are interested in serving the burgeoning market of visitor-shoppers, especially the growing middle- and upper-income classes in the economies of the Asia Pacific. *The Economist* magazine estimates that the Asian middle-class population may grow to one billion in a few years.

Conclusions

Apart from the ups and downs of the national and international economic environments, the major cause of Hawaii's recent slump in tourism appears to be related to the maturing and flattening out of the westbound market. This market is heavily influenced by California and other West Coast states. There are also a number of specific factors that are impeding the growth of the westbound market including the convenience and cost of air service, competition, and slow economic growth.

Improvement in one or more of these factors could spur additional westbound growth and give the Neighbor Islands some additional time to more effectively attract eastbound visitors. While the Japan market is showing reasonably healthy growth and other Asian markets are emerging, they are not yet a large enough proportion of total visitor arrivals to counter the slowing of the westbound market. As the emerging markets become a larger proportion of tourism, the industry will be on a more stable footing. Thus, the facilitation and attraction of more Asian travelers to Hawaii is clearly becoming one of the most important means towards ensuring the continued growth of tourism to Hawaii. In order to realize this economic potential, Hawaii must continue its efforts to expand international travel potential through such means as visa waivers and direct flights from Asia to the Neighbor Islands. If ways cannot be found to attract eastbound visitors to the other counties, the state may lose visitors as the room capacity of Oahu is reached.

In addition, if alternative products and niche markets can be developed (such as the convention center market) or if long-haul travel becomes more economical, growth in the westbound market may be sustained or possibly accelerated.

Clearly, Hawaii tourism is in transition, being challenged by changing trends in its visitor markets, the transportation system, and increased competition from rival destinations. Despite its past success in attracting visitors seeking the sun-and-surf experience, Hawaii must now expand its tourism markets and infrastructure. New visitor products need to be developed and promoted in order to ensure Hawaii successfully meets the demand of emerging markets of the next century.

The Economic Impact of Tourism in Hawaii:

An Application Of The Hawaii Input-Output Model

Most people know that tourism is Hawaii's most important industry. But exactly how important is it and how much of Hawaii's economy, apart from hotels, depends upon it? This article uses the Hawaii Input-Output (I-O) Model maintained by DBEDT to measure the relationship between tourism and the rest of the economy. It concludes that business activity that provides goods and services to visitors accounts for more than 23 percent of Hawaii's Gross State Product (GSP) and that virtually all sectors of the economy are involved to some extent in tourism.[1] In addition, the article describes the process by which visitor spending creates economic activity and how researchers measure the many impacts of tourism on the economy.

Measuring Tourism

Table 1 provides a number of alternative measures of visitor spending. A starting point for measuring tourism is the amount of money visitors to Hawaii spend in eating and drinking establishments, hotels, and entertainment.[2] DBEDT estimates that in 1995 this spending alone totaled just over $11.0 billion (column 1 of Table 1). But to get a more complete accounting of visitor spending, economists also take into account other important expenditures that visitors make indirectly: for example, the portion of overseas airline expenditures in Hawaii that visitors support through their purchase of plane tickets. This purchase supports airline payrolls locally, operating expenditures, and rents and fees to the airport. Airline-related expenditures in 1995 were estimated at about $448 million and, combined with other visitor spending, bring the total for gross visitor spending to about $11.5 billion for the year (columns 2 and 3 of Table 1).

"Net" Visitor Spending—Accounting for Imports

Tourism is an export product of Hawaii and, unlike sales of goods and services to residents which simply recirculate money already in Hawaii, export sales bring new money into the state. However, the $11.5 billion in gross visitor spending estimated above overstates the export value of tourism because a significant portion of the goods sold to visitors were not produced in Hawaii but were, in fact, imported and resold to visitors. Some of these products, ranging from sunglasses to designer handbags, were almost pure imports in that very little of the value of these products was added in Hawaii (except for a retail markup). Similarly some products such as aloha shirts contain some Hawaii-produced value since they were manufactured here. Yet even for these goods, most of the materials were imported and do not represent Hawaii-produced value. Many products sold to visitors fall into this latter category, having a combination of locally-produced content and imported materials or components. Generally, services have the highest proportion of locally-produced value, although a service industry such as eating and drinking may contain significant import value.

To evaluate the importance of tourism to Hawaii, it is more meaningful to measure tourism by the value created in Hawaii—i.e., its "net" value—rather than total sales to visitors. Net tourism expenditures is the contribution of the industry to GSP which is, in turn, the total value of goods and services produced by Hawaii's resources. The "net" value of tourism expenditures is found by subtracting out the portion of visitor sales that is attributable to imported goods.

Through the use of the Hawaii Input-Output (I-O) Model, the import content of gross visitor spending has been estimated and is shown in Column 4 of Table 1. Finally, the last column of the table shows "net" visitor expenditures after imports are subtracted. This measure totaled about $7.7 billion in 1995 or 67 percent of gross visitor expenditures. This means that about 67 percent of the value of goods and services sold to visitors was value added by Hawaii, while 33 percent represented imports.

While net visitor-related expenditures account for 23 percent of Hawaii's GSP, this includes only the initial sales of goods and services to the visitor. This initial round of visitor spending induces additional consumption expenditures by Hawaii employees due to larger payrolls, more visitor-related construction and other investment to increase visitor industry capacity, and increased government expenditures to expand public services and infrastructure to meet the greater tourism-related demand. These additional contributions to GSP, called "induced" effects, increase the total impact of visitor spending above the 23 percent level.

Historically, net visitor expenditures have exhibited phenomenal growth (Figure 1). From about $57 million in 1958, net visitor expenditures increased to $1.9 billion in 1979 to become the largest source of export income to Hawaii. In addition, because net visitor expenditures grew faster than GSP, the proportion of net visitor-related expenditures to total GSP increased from 4 percent in 1958 to a peak of 27 percent in 1988. Since 1988, tourism growth has slowed, and in fact, declined in 1992 and 1993. In 1994, visitor-related expenditures rebounded to $11.0 billion, an increase of 21 percent. Last year's total of $11.5 billion represented a 4 percent increase in visitor-related expenditures.

Impact of Tourism by Industry

In considering the impact of tourism on the economy, it is useful to look at its contribution by industry. The two columns of Table 2 show in percentage terms how Hawaii's major industries share the visitor dollar (column 1), and also how dependent the various industries are on tourism spending (column 2).

Column 1 in the table shows the share of visitor spending by major industry groupings and, in the last line, the proportion of total spending that is absorbed directly or indirectly by imported products and materials which,

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[1] This activity corresponds to what economists term the "direct" and "indirect" impacts of tourism. It does not include the "induced" effect, which includes, among other things, the respending of income by employees of tourist-related businesses.

[2] This is the measure officially computed and used by the Hawaii Visitors Bureau.

as indicated earlier, amounted to about 33 percent of gross visitor spending. Of the remaining or "net" visitor expenditures, the largest single portion, 28 percent, is absorbed by the hotel industry. Hotels are followed by eating and drinking places (10 percent), other retail trade (9 percent), other services (7 percent), air transportation (6 percent), and other transportation (4 percent).

Column 2 of the table shows the share of each industry's output that was sold directly or indirectly to visitors. This is a measure of how dependent the individual industries are on visitor activity. Not surprisingly, the industry with the highest proportion of industry output accounted for by visitors is hotels at 93 percent. Air transportation, which includes both overseas and interisland airlines, is also significantly dependent on visitor spending at 73 percent. This is followed by eating and drinking places at 51 percent and other transportation at 28 percent. Column 2 also shows that visitor spending absorbs 25 percent of all imports to the state.

Tourism's Impact on GSP, Jobs, and Income

The importance of tourism can also be measured by its overall impact on GSP, jobs, household income, and state and local government taxes. Using the I-O model, the impact of tourism on these items was estimated and is presented in Table 3.

It must be noted that the economic impacts in this analysis include only two rounds of economic activity: (1) visitors' direct purchases from businesses, and (2) purchases by other businesses related to supplying and servicing the businesses that sell directly to visitors. Not included in this analysis are subsequent rounds of economic activity which are "induced" by higher sales in these businesses.

As shown in Table 3, tourism's contribution in terms of jobs has generally been higher than its contribution to GSP. While tourism's share of GSP varied between 20 and 27 percent, its share of jobs in the state remained relatively stable at 24 to 25 percent throughout the 1985–1995 period. This indicates that relatively more tourism jobs can be created (or lost) as tourism expenditures change than for the economy as a whole.

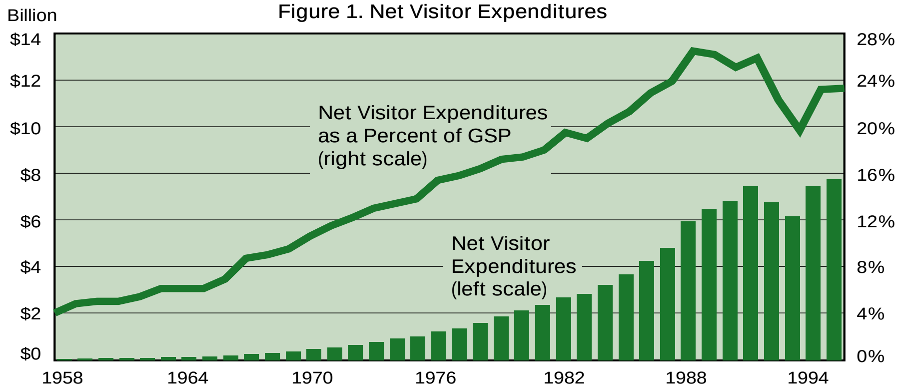
The data in the table also suggest that tourism jobs do not react immediately to a change in visitor expenditures but that there is a lag relationship between tourism jobs and expenditures. For example, although visitor-related expenditures dropped 8.1 percent in 1992, tourism jobs

Table 1. Components of Visitor Expenditures in Hawaii ($ millions)

	Gross Visitor Expenditures			Net Visitor Expenditures	
Year	Expenditures by Visitors in Hawaii	Plus: Visitor Expenditures on Overseas Airlines	Equals: Gross Visitor Expenditures	Less: Import Content of Goods Sold to Visitors	Equals: Net Visitor Expenditures
1985	5,243.6	193.0	5,436.6	1,788.7	3,648.0
1986	6,103.8	192.3	6,296.1	2,071.4	4,224.7
1987	6,867.6	261.3	7,128.9	2,345.4	4,783.5
1988	8,528.1	285.7	8,813.8	2,899.7	5,914.0
1989	9,281.8	331.6	9,613.4	3,162.8	6,450.6
1990	9,738.6	370.6	10,109.2	3,325.9	6,783.3
1991	10,633.8	405.7	11,039.5	3,632.0	7,407.5
1992	9,558.9	461.2	10,020.1	3,296.6	6,723.5
1993	8,677.6	447.5	9,125.1	3,002.2	6,122.9
1994	10,603.2	432.5	11,035.7	3,630.7	7,405.0
1995 [1]	11,037.9	447.6	11,485.5	3,778.7	7,706.8

[1]Preliminary estimate by DBEDT.

Figure 1. Net Visitor Expenditures



actually increased 0.4 percent in that year. On the other hand, when visitor-related expenditures increased by 20.9 percent in 1994, the number of jobs in tourism declined by 0.9 percent.

Tourism's contribution to household income is consistently lower than its contribution to GSP, indicating that, on average, jobs in tourism pay less than the average of all jobs in the economy. To some extent, the lower average income in tourism is due to the inclusion of part-time workers in the industry. Because of the lower average income per worker, tourism's contribution to state and local government taxes is also lower than its contribution to GSP. However, the gap has narrowed in recent years with the establishment of the Transient Accommodations Tax (TAT). Thus, taxes generated by tourism, including TAT, now appear to be proportional to tourism's share of the economy, suggesting that the industry does not bear a disproportionate share of the state and local tax burden.

In spite of the dip in growth in recent years, tourism remains the largest generator of economic activity in Hawaii. Even when counting only the first-round impacts (i.e., excluding induced impacts), tourism generated $7.7 billion in value added or about 23.3 percent of GSP in 1995. Of total jobs in the state, 160,200 or 25 percent were in businesses servicing the visitor directly or indirectly. Tourism also contributed $4.7 billion or 21 percent of total household income, and $888 million, or 23 percent, of state and county taxes last year.

Other Studies of Tourism's Impact

Results of other studies support DBEDT's estimate of the importance of tourism activities in the state. For example, the WEFA Group (formerly known as the Wharton Econometric Forecasting Associates Group) recently completed an economic impact study of Hawaii's travel and tourism sector for the World Travel and Tourism Council. WEFA estimated that tourism accounted for 23.3 of Hawaii's GSP in 1993 and projected a 24.3 percent share for 1996. Like DBEDT's analysis, WEFA's study does not include induced impacts. However, WEFA's

Table 2. Industry Dependence on Tourism (percentage)

Industry[1]	Share of Total Visitor Spending Each Industry Gets	Share of Each Industry's Output that Tourism Buys
Agriculture	0.2	1.7
Manufacturing	1.4	7.6
Air transportation	6.4	73.1
Other transportation	3.9	28.0
Comm. & utilities	0.2	1.4
Wholesale trade	1.4	9.7
Eating and drinking places	9.6	51.0
Other retail trade	9.3	29.4
Finance, insurance and real estate	0.0	0.1
Hotel services	28.0	92.9
Other services	6.5	11.8
Government	0.1	0.1
Subtotal industries	*67.1*	*NA*
Imports	32.9	25.1
Total for economy	*100.0*	*21.7*

NA = not available.

[1] Each industry's visitor- related imports are included in the category "imports."

Source: DBEDT, Hawaii State Input-Output Model.

Table 3. Economic Impacts of Tourism in Hawaii (Direct and indirect impacts only)

Year	Gross Visitor-Related Expenditures ($ mil.)	GSP		Jobs		Household Income		State & Local Taxes	
		Value ($ mil.)	Share of State Total (%)	Number (1,000)	Share of State Total (%)	Value ($ mil.)	Share of State Total (%)	Value ($ mil.)	Share of State Total (%)
1985	5,436.6	3,648.0	21.3	129.8	24.0	2,207.3	19.7	343.4	19.0
1986	6,296.1	4,224.7	22.9	133.1	24.0	2,556.2	21.1	397.7	20.3
1987	7,128.9	4,783.5	23.9	139.7	24.4	2,894.3	21.9	496.4	22.7
1988	8,813.8	5,914.0	26.5	147.4	24.9	3,578.4	24.3	618.6	25.2
1989	9,613.4	6,450.6	26.2	156.7	25.3	3,903.1	23.9	680.3	24.9
1990	10,109.2	6,783.3	25.1	163.1	25.5	4,104.3	22.9	714.0	24.2
1991	11,039.5	7,407.5	25.9	168.1	25.7	4,482.1	23.5	797.6	23.9
1992	10,020.1	6,723.5	22.3	168.8	25.7	4,068.2	19.7	732.8	21.3
1993	9,125.1	6,122.9	19.7	163.0	25.0	3,704.8	17.4	669.6	18.9
1994	11,035.7	7,405.0	23.2	161.6	25.1	4,480.5	20.7	838.5	22.5
1995[1]	11,485.5	7,706.8	23.3	160.2	25.2	4,663.1	21.1	888.2	23.2

[1] Preliminary estimate.

definition of tourism is broader than that of DBEDT. DBEDT's tourism definition includes only expenditures by out-of-state visitors and overseas airlines. On the other hand, because WEFA's goal was to look at the size and impact of the entire hospitality industry including resident travel, hotel construction, and government support of tourism, their definition of tourism includes residents undertaking interisland and out-of-state travel, capital investment in hotels and infrastructure, and government spending on tourism, as well as out-of-state visitor spending.

Because of the differences between DBEDT's and WEFA's analyses in terms of their definitions of tourism as well as their goals, the estimates of tourism's impact are not directly comparable. Nevertheless, if only out-of-state visitors are counted in WEFA's estimates, the results derived are very similar to those of DBEDT.

It should be noted that the DBEDT and WEFA analyses of tourism's economic impact are not the same as a "benefit-cost" study, which attempts to compare the positive contribution of economic activities with their negative effects. Rather, the I-O analysis is limited to measuring the probable economic gains of a change in economic activity. Many of the social costs, such as those caused by additional congestion and pollution, are difficult to quantify. A multi-part study in the 1970s did attempt to quantify government costs and benefits related to tourism in 1968.[3] The costs included public outlays for services supplied directly to visitors, public outlays for services supplied to individuals and firms that did business with visitors, and public outlays for services supplied to the large labor force serving visitors. The study concluded that the state and all of the county governments benefited from tourism on balance. Unfortunately no analysis on such a scale has been done since.

Conclusions

This I-O analysis of tourism's size and economic impact has shown tourism to be a large and important, but not overwhelming, segment of the state's economy. The segments of Hawaii's industries that supply goods and services to the visitor accounted for about 23 percent of GSP or $7.7 billion in 1995. Other studies find similar results and confirm tourism's significance to Hawaii and its people. Indeed, visitor activity's total contribution to output, income, and taxes is probably larger when activities that are induced by tourism are also taken into account.

Some industries are very dependent on tourism and are significantly affected by the ups and downs in the visitor market. These industries include air transportation and eating and drinking. Other industries also derive significant income directly or indirectly from visitors and virtually all industries have some connection to the activity.

The jobs created by tourism expenditures pay somewhat less, on average, than other jobs (due in part to a large number of part-time jobs), but at the same time, these jobs are more readily created when visitor ex-penditures increase. Tourism appears to be contributing to the state and local tax base in about the same proportion as its share of the economy as a whole.

Finally, an interesting finding is that about a third of the value of goods and services sold to Hawaii visitors is imported. This suggests that there is a potential $3.8 billion in imports that could be replaced, at least in part, by Hawaii production. Or alternatively, there is the potential for a portion of that $3.8 billion to be spent on other goods and services that have been produced in Hawaii.

[3] *The Visitor Industry and Hawaii's Economy: A Cost-Benefit Analysis* and *An Island-Specific Analysis of the Hawaii Visitor Industry* by Mathematica (1970).

Revitalizing Tourism—Four Key Issues

The lead article in this issue of *Hawaii's Economy* identified changing trends in Hawaii's visitor markets and the impacts they are having on the state's economy. This article focuses on four major issues alluded to in that article and which need to be addressed to help adjust the course of tourism to ensure adequate growth into the next century. These include: (1) the revitalization of Neighbor Island tourism, (2) ensuring an adequate number and distribution of visitor rooms, (3) improving air service from Hawaii's key markets, and (4) finding alternative mechanisms for tourism promotion financing.

Revitalizing Neighbor Island Tourism

Although growth in visitor arrivals statewide has rebounded since 1994, the primary beneficiary has been Oahu rather than the Neighbor Islands. The growth of visitor arrivals to Oahu has been significantly higher than any other island since the recovery began in 1994 (Figure 1). In contrast, arrivals for most of the other islands have been basically flat if not declining. Although Kauai experienced growth in both 1994 and 1995, the expansion has been largely due to the recovery from Hurricane Iniki.

This unequal distribution of benefits arising from the recent increase in arrivals is largely due to a decline in the proportion of westbound visitor arrivals in favor of eastbound arrivals from Japan and other Asian origins. As pointed out in the front-page article, eastbound visitors have overwhelmingly chosen Oahu as their primary and only destination in Hawaii.

Table 1 shows why this is a problem for the Neighbor Islands. While the Neighbor Islands attract 89 percent of the westbound market, they attract only about 29 percent of the state's eastbound market. The best share of the eastbound market by any one Neighbor Island county is Maui with just 16 percent. By contrast, 97 percent of all eastbound visitors spend time on Oahu.

This unequal distribution in visitor arrivals is even more striking when the growth rate of the counties is broken down by direction of travel (Tale 2). In 1995, eastbond arrivals to the state grew by more than 9 percent. As the breakdown shows, the resulting11 percent increase in eastbound visitor arrivals to Oahu contrasted starkly with the Neighbor Islands' experiences which ranged from a slight 1 percent increase in Hawaii County to a nearly 16 percent decline on Kauai. The inability to attract significant numbers of eastbound visitors outside of Oahu was compounded by an overall decline in westbound visitors for the year in all counties except Kauai.

The tendency for eastbound visitors (primarily Asian) to concentrate their stay on Oahu and not visit the Neighbor Islands is one of the most serious challenges facing Hawaii tourism, particularly considering the underperformance of westbound arrivals. The opening of the convention center in 1998 could further concentrate visitors on Oahu.

To address the imbalance, marketing programs that channel visitors from Asia and the Pacific to the Neighbor Islands, as well as increase the number of westbound visitors to the state need to be developed. The use of cultural tourism programs and the creation of special events, such as the Merrie Monarch Festival in Hilo, can assist in these efforts. In addition, the Matsuuri and Honolulu Festivals, which are noted for bringing in large numbers of Japanese visitors to Hawaii, provide an excellent opportunity for targeted marketing of eastbound visitors for Neighbor Island visits. The Aloha Festivals are Hawaii-specific events that, along with the Japanese festivals, can be promoted in the U.S. to draw additional visitors who may wish to experience cultural events from Asia and the Pacific without leaving the U.S. environment.

The state has also moved to increase direct international flights to the neighbor islands. On the Big Island, the Keahole runway extension is completed and efforts have been underway to accommodate direct flights from Japan.

Additionally, two projects with high priority for the state are the extension of the airports on Maui (Kahului) and Kauai (Lihue) to accommodate wide-body aircraft. The $40 million Maui runway extension and a new $50 million access road have been placed on hold due to court action since 1992 over lack of proper environmental documentation. The Hawaii State Department of Transportation has completed state and federal EIS, and land use changes are in progress through the Land Use Commission. Public hearings on Maui for the EIS will need to be completed before the final EIS can be sent to the Federal Aviation Administration. Project design and land use changes could be completed in 1996. If given priority status, this project could be completed by late 1998. Court challenges could, of course, delay this timetable.

For Kauai, the state and federal EIS need to be completed, and the contracts for project design and construction need to be awarded. This project could be completed before 2000 if given priority status.

Ensuring Adequate Visitor Room Capacity and Mix

Along with strategies to expand visitor markets and address the imbalance in eastbound arrivals among the counties, it is equally important for Hawaii to have the necessary physical capacity to accommodate the much-needed growth in tourism. Over the past thirty years, the number of rooms in the state has increased fivefold, from 13,000 in 1965 to over 70,000 at present. Nearly 32,000 or 55 percent of the additional rooms since 1965 have been constructed on the Neighbor Islands which now have about half of all statewide visitor rooms (Figure 2). While there are many factors which have encouraged more development on the Neighbor Islands, one of the most important has been the effects of the room cap imposed on Waikiki by the City and County of Honolulu. Under this cap, the number of romos on Oahu has remained between 34,000 and

39,000 since 1980. Although additional lands have been zoned for resort development outside of Waikiki, most notably Ko'olina and Kuilima, these resorts have not developed as originally envisioned.

Another important factor which has led to this districution of rooms is the state's land use policy. Many plans over the years, including tourism development plans from the 1960s through the first official statewide tourism plan in 1984, espoused policies which provided for a set of self-contained visitor destination areas throughout the state in an effort to spread the "benefits" of tourism development. However, the rapid and somewhat speculative build-out of these resort areas, combined with a lack of coordinated marketing programs, have led to lower occupancy rates on the Neighbor Islands. While occupancy rates on Oahu have ranged between 76 and 87 percent since 1990, Maui County's rate has been in the 67–75 percent range, Kauai in the 60–67 percent range (prior to Hurricane Iniki), and the Big Island in the 57–67 percent range. With the average occupancy rate on Oahu exceeding 80 percent (1995) and expected to increase, Honolulu is approaching a supply shortage while the Neighbor Islands continue to suffer from overcapacity.

A recent analysis by DBEDT shows that at its current capacity, Hawaii hotels could accommodate approximately 7.4 million visitors or an additional 720,000 arrivals. Even if total arrivals grow as little as 2 to 3 percent per year, operating capacity would be reached in the next 3 to 5 years. This assumes that there would be perfect distribution of the 720,000 visitors on all islands so that overall occupancy is 85 percent for all hotels in the state (which is considered the full capacity occupancy for operating purposes). If, however, eastbound visitors continue to concentrate their stay on Oahu and forego visiting the Neighbor Islands, the existing capacity on Oahu will be reached even sooner.

The opening of the convention center in 1998 will put additional strain on both efforts to balance visitor arrivals throughout the islands and the inventory of first-class rooms. As shown in Table 3, the convention center will likely account for an additional one-quarter of a million visitors at its opening in 1998. By 2008 (only 12 years from now), the convention center may add a total of 633,600 additional visitors to the Waikiki area.

Table 2. Growth of Visitor Arrivals by Island, 1995 (Percentage)

Island	Total	Eastbound	Westbound
State	3.2	9.2	-0.5
Oahu	4.7	11.4	-1.6
Maui	-1.8	-4.0	-1.2
Hawaii	-0.3	0.9	-1.2
Kauai	5.2	-15.7	9.4

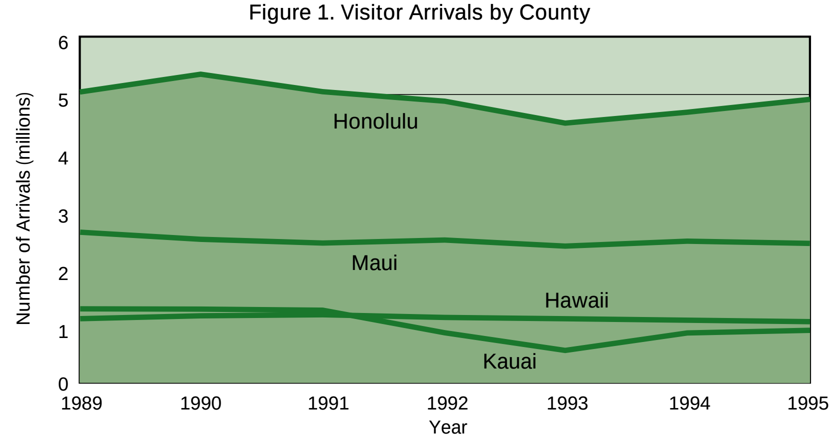
Source: Hawaii Visitors Bureau.

Table 1. Distribution of Westbound and Eastbound Visits by County, 1995

County	Total		Westbound		Eastbound	
	Arrivals	Share (%)	Arrivals	Share (%)	Arrivals	Share (%)
All	6,633,840	100.0	3,977,820	100.0	2,656,020	100.0
Oahu	4,915,840	74.1	2,353,750	59.2	2,562,090	96.5
N. Isles	4,308,600	64.9	3,535,740	88.9	772,820	29.1
Maui	2,313,170	34.9	1,877,060	47.2	436,110	16.4
Hawaii	1,075,870	16.2	860,540	21.6	215,330	8.1
Kauai	919,560	13.9	798,140	20.1	121,380	4.6

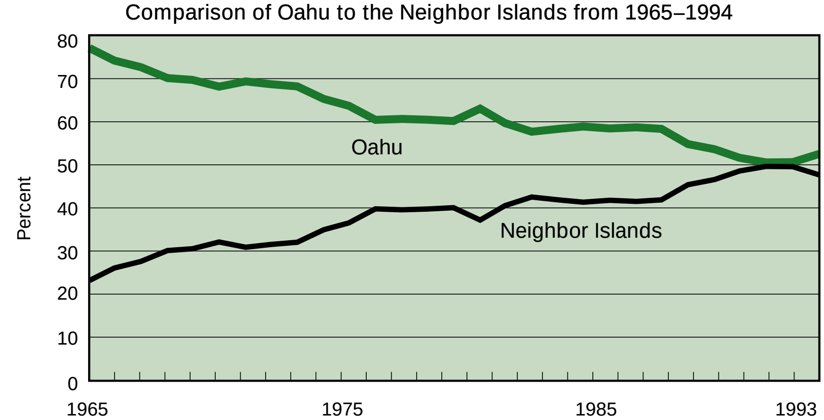
Source: Hawaii Visitors Bureau.

Figure 1. Visitor Arrivals by County



Note: Beginning in 1994, the data collection method to determine "intention to visit "each island was changed. As such, the comparison of 1994 and 1995 data to previous years should be done with caution. Also, individual island totals exceed state total because travelers visit more than one island.

Figure 2. Share of Visitor Plant Inventory (Rooms): Comparison of Oahu to the Neighbor Islands from 1965–1994



In addition, the Environmental Impact Statement (EIS) report on the convention center projects that the 633,600 additional conventinoeers will displace approximately 50,000 Japanese visitors who will not come to Hawaii at all due to the unavailability of first-class rooms at certain peak times of the year. Further, even with the current supply of hotel rooms, the remaining 584,000 net new visitors to the state through the convention center will displace at least 130,000 existing visitors to Waikiki; these visitors will have to be diverted to other resorts on Oahu or the Neighbor Islands. The tighter the inventory of upscale rooms, the more visitors will need to be diverted. How many of the visitors that must be diverted will be Japanese is difficult to predict, but it is known that this market particularly favors Waikiki accommodations and a majority (50–65 percent) demand first-class rooms.

To ensure that convention visitors do not simply replace higher-spending Japanese visitors, it is imperative that strategies are formulated to either channel significantly more Japanese visitors to the Neighbor Islands or make available more upscale rooms in or near Waikiki.

The number of visitors that can be redirected to the Neighbor Islands versus those who would not come to Hawaii at all due to low availability of upscale rooms is of serious concern. A room supply shortage on Oahu may deter some potential visitors to the state if the demand for visitor rooms cannot be met. This will, in turn, limit job growth in hotels, restaurants, retail and other industries as well as limit the growth of the property tax base derived from hotels and other industry facilities. Thus, ensuring a growing jobs base in tourism on Oahu will require careful evaluation of existing policies regarding visitor room development and creative solutions for accommodating more visitor rooms without causing a deterioration of the visitor experience.

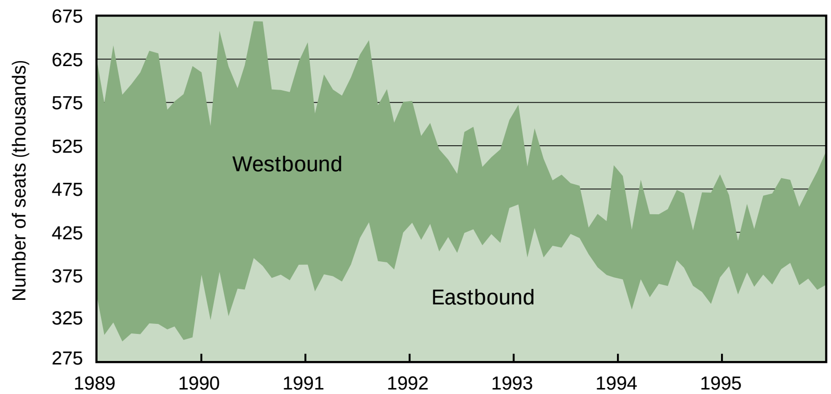
One strategy being examined is encouraging renovations of existing standard rooms to first-class quality. The seriousness of the imbalance in hotel accommodations across the islands depends on the number of upscale or first-class rooms that can be made available in the Waikiki area. First-class rooms will be in high demand by both Japanese and conventioneers. Because there is no generally accepted definition of "first-class" rooms (see accompanying article on p. 12), the actual count of such rooms currently available varies. Yet, despite the different estimates, it is clear that the number of these rooms will need to be increased by many thousands. If the increase in upscale rooms could be accomplished through upgrades and renovations to existing properties, the actual number of hotel rooms in the Waikiki area may not need to be increased substantially.

Table 3. Projected Attendance for Convention Center Events, 1998–2008

	1998	2003	2008
No. of events	36	52	60
Average no. of delegates	5,400	6,200	6,200
Total delegates per year	162,000	322,400	372,000
Delegates and guests	255,600	544,300	633,600

Source: Hawaii Convention Center Final EIS, Volume 1.

Figure 3. Monthly Airseat Capacity on Scheduled Carriers to Hawaii, 1989–1995



Source: DBEDT

Increasing Airlift Capacity

From 1989 to 1995, the number of scheduled airline seats to Hawaii declined faster than passenger counts. In 1989, the number of air seats for both eastbound and westbound flights was 11.0 million; by 1995, this number had fallen to 10.0 million, a 9 percent drop. In contrast, the total number of arrivals was about the same in 1995 as in 1989. The reasons behind the falling airlift capacity include global airline restructuring, lower demand, high percentage of low-paying leisure travelers, rising costs associated with flying to Hawaii, and the lack of recognition by the federal government of the key role airlines play in the tourism industry.

Review of the data indicates that the fall in the total number of seats to Hawaii was largely due to a decline of over 22 percent in airlift capacity of westbound flights. At the same time, air seat capacity on scheduled eastbound flights increased by more than 18 percent. As a result, the ratio of eastbound-to-westbound seats changed from 34:66 in 1989 to 41:59 in 1995, underscoring the rising importance of foreign, especially Asian, visitors to Hawaii tourism.

While the decline in westbond service has meant higher load factors for the airlines, at times it was also a limiting factor for the number of visitors to the state. Recent recognition of this has led to air carriers adding more flights to to Hawaii. For example, United Airlines has announced an increase of 7,100 inbound seats per week over the next six months. Of this, one-third (2,600 seats) will be on nonstop flights directly from the U.S. mainland to the Neighbor Islands.

While nonstop westbound flights from the U.S. and Canada are increasing, there are still no eastbound nonstop flights from Asia directly to the Neighbor Islands. The inconvenience of having to transfer planes in Honolulu cold be one factor which is inhibiting the channeling of eastbound visitors to the other counties. Until recently, only Honolulu and Hilo Airports had adequate runways to fully handle wide-body aircraft. However, West Hawaii County's Keahole Airport has been upgraded by the State and U.S. Department of Transportation (DOT) to accommodate and process passengers from international flights and large aircraft. Japan Airlines' (JAL) request for landing rights at Keahole Airport was approved and service is scheduled to begin this June. Efforts are underway to lengthen runways in Maui and Kauai in order to facilitate Neighbor Island tourism growth.

Additional initiatives that will improve the airlift situation are:

1. The offering of alternatives to the airlines that will help lower the cost of doing business in Hawaii. The airlines make significant expenditures in Hawaii to cover the cost of their operations. Major cost categories that could possibly be reduced include those associated with food and catering, crew travel and incidentals, airport fees, and others.
2. Increase marketing and promotion initiatives to increase demand, specifically demand by business travelers which generate a better return for the airlines. This is particularly relevant to the promotional plans of the convention center.
3. Develop Honolulu into a “quasi-hub” with code sharing, particularly with Asian airlines.

The airline industry holds the perception that it has been taken for granted in Hawaii. To show Hawaii’s interest and concern for the health of the airline industry, the Governor has formed the Advisory Council on Airline Relations. Lieutenant Governor Hirono is leading this council which will explore ways to develop a better partnership with the airlines. Of particular importance is the ability to anticipate or appropriately time promotional programs with the periodic discount or “loss-leader” campaigns of the airlines.

The issues surrounding adequate airlift capacity are numerous and complex. Policy options are needed which address the full range of structural issues, in combination with adjustments to cost, to ensure greater impact and assist in reversing the downward trend.

Restructuring Tourism Promotion Financing

In 1959, the Hawaii Visitors Bureau (HVB) received about one-half of its total budget from the private sector and the other half from the state. Since then, however, the private sector’s share has generally followed a declining trend, with dramatic drops since the early 1980s. Currently, the state provides about 90 percent of HVB’s budget, or $23 million annually, for tourism marketing.

This heavy reliance on the state for its budget is partly due to a “free rider” problem within HVB. Over the past several years, HVB’s membership has declined. It appears that in the absence of sufficiently attractive benefits or penalties to induce contributions by those who benefit from HVB’s promotional activities, many businesses choose to “free ride” on the contributions of others. As a result, a less-than-optimal level of destination travel promotion is funded by the industry and in order to maintain much of the marketing and promotion, government funding has been necessary.

With the state’s current budget situation, a reassessment of the financing of development and promotion of tourism has become a high priority. Responding to this, DBEDT recently completed an analysis of the options for the financing of tourism marketing in Hawaii. The options include: (1) earmarking a percentage of the existing TAT (transient accommodations tax); (2) creating a new broad-based tourism tax; (3) increasing the TAT; and (4) development of a self-assessment scheme. Each option has advantages and disadvantages in terms of the ease with which the mechanism can be implemented and the funds collected, the distribution of the tax burden on visitor-related businesses, and government involvement in tourism promotion. These options could be implemented individually or a combination of options may be used. It is noteworthy that other states in the U.S. and other countries have moved towards privatization of tourism marketing efforts. Importantly, any new funding scheme adopted must be “pro-business.”

Additionally, it would be beneficial for HVB to reassess its promotional goals, priorities, and activities. For example, in addition to general promotion of Hawaii as a tourist destination, better targeting of “niche” markets may be fruitful. As noted earlier, the more affluent consumers have been less affected by the slowdown of the U.S. economy, while other consumers, especially those in the middle-class, have had to cope with lower real income and less leisure (due, for example, to the constraints imposed by two-income families). It would thus appear that targeting of the middle-income group at this time would be less effective in attracting visitors than would a campaign aimed at the more affluent.

Conclusions

The leveling off of Hawaii’s visitor industry is, to some extent, a sign of maturity for the industry. But it is important that tourism, which is such a vital industry in Hawaii, does not slow too much and undermine the health of our economy. This article has identified four key issues that will be central to ensuring the vitality of tourism into the next century. These can be summarized as:

- Finding ways to attract more eastbound visitors to the Neighbor Islands. Options that need to be more fully explored to do this include more cultural tourism programs, special events, direct international flights to the islands, and improved targeting of promotional efforts.
- Reorienting the state’s system of visitor accommodations to better reflect the needs of emerging markets. Development of visitor accommodations on the Neighbor Islands needs to be better matched with market trends and potential to avoid chronically lower occupancy rates. Effective means to redirect visitors, particularly from Asia, to the Neighbor Islands need to be found. Also, Oahu’s visitor plant needs upgrading with more first-class rooms. Ways to accommodate growth in the industry on Oahu need to be found that will also permit the maintenance of a desirable resort destination environment.
- Better recognition and attention to the critical role of the airlift system to Hawaii. Ways to encourage additional airlift capacity to the islands by both domestic and foreign carriers is needed, as well as a better understanding by the federal government of the economic importance to the state of direct flights from Asia.
- Improving the base for funding the promotion of tourism and better targeting of emerging and niche markets. More private sector participation in the funding and direction of promotional activities is needed.

JAL Tokyo-Kona Flights Receive Temporary Approval

An agreement in late April between U.S. and Japan negotiators has permitted Japan Airlines (JAL) to provide direct service from Tokyo to Kailua-Kona in the County of Hawaii through at least October 26, 1996. Additional negotiations in early June will hopefully extend the service permanently as well as add additional flights from Hiroshima to Honolulu. JAL's Kona service is scheduled to begin in early June. Hawaii officials estimate that the direct JAL flights to Kona could inject up to $183 million annually into Hawaii's economy.

Efforts had been underway to accommodate direct flights from Japan to Kona since the completion of the Keahole Airport runway extension. JAL originally planned to fly up to seven nonstop weekly flights from Tokyo to Kona beginning April 1, 1996. However, the U.S. government delayed approval of the new flights, pending action by the Japanese government on requests by U.S. airlines to fly to and beyond Japan (which were granted as part of the provisional agreement).

State and county officials worked closely with federal officials to clarify the critical importance of the Tokyo-Kona flights to Hawaii's economy and urge their approval. Senator Inouye and the Subcommittee on Aviation of the Senate Committee on Commerce heard testimony in Honolulu in early April on the status of U.S.–Japan bilateral negotiations for new air routes between Japan and Hawaii. The hearing helped clarify the state's concerns.

The loss or undue delay of the planned JAL Kona flights would have been damaging to the state's economy and particularly to the County of Hawaii. Over the last four years Hawaii County has lost over 3,000 jobs and has a current unemployment rate of 9 percent, nearly 60 percent higher than the national average. On the same day in March that the state dedicated the new $3 million international arrivals facility at Kona's Keahole Airport, the island's last sugar plantation, Ka'u Sugar, quietly went out of business, idling 250 workers. The only employment alternative in the near future for the people of the Big Island, and to a large extent the state, is expansion of Japanese and other international tourism.

The administration continues to work with federal and county officials to ensure that negotiations result in permanent status for the Tokyo-Kona flights and to secure additional flights from Japan to Honolulu and the Neighbor Islands as facilities become available.

The Problem of Defining First-Class Rooms

As noted in other articles in this issue of *Hawaii's Economy,* the key to serving Hawaii's emerging markets is not only the provision of an adequate number of properly located visitor rooms, but also an increasing number of "first-class" or upscale rooms. It is generally agreed that most large events that will be attracted to the new convention center, when complete, will require first-class accommodations for delegates and other attendees. Evidence is also mounting that at least half of the Japanese visitor market now demand first-class accommodations, particularly in on-beach properties. However, a major problem that needs to be addressed is how to define and measure what first-class accommodations are. At the moment, there is no consensus on this issue.

For instance, HVB surveyed individual rooms in hotels and visitor condominiums in 1994 and rated 17 percent of the Oahu room inventory as "first class" or "luxury." These two categories accounted for about 6,300 upscale rooms—5,900 first-class and 400 luxury rooms. First-class rooms were defined by HVB as those with listed or "rack rate" prices above $250 per day. Rack rates are not usually the actual rate a guest pays due to discounts. Luxury rooms were defined as those with rack rates above $500 per day. Another 16,300 rooms, or about 45 percent of the Oahu room inventory as measured by HVB, were classified as "deluxe" (rack rates above $100) and the balance as "budget" (rack rates of $100 and below).

Alternatively, the consultant firm of Coopers and Lybrand rated the 1992 hotel inventory (not including condominiums) on Oahu as 13 percent luxury and 42 percent first-class. Coopers defined first-class and luxury hotels as those with average "actual" room rates (what guests actually paid) above $100 and $175, respectively. The results placed more than 16,800 hotel rooms in the first-class and above category on Oahu, well over twice the HVB count.

The main reason for the considerable difference in the HVB and Coopers counts is due to the way they chose to define first-class and above rooms. While measures of rack rates and actual rates are difficult to compare, it is likely that many more rooms met the $100 actual rate criteria for first-class and above in the Coopers study than met the $250 rack rate in the HVB survey.

A third expert opinion about the number of first-class quality rooms has been provided by the consultant firm PKF Hawaii, which ventured that from 5,000 to 10,000 rooms in Waikiki can be classified as first-class. There is no documentation for the PKF estimate.

Thus, due to a lack of consistency in the criteria by which the quality of visitor rooms are classified, the number of high-quality rooms (i.e., first-class and above) in Waikiki could range from as few as 5,000 to as many as 16,800. After reviewing the available information, DBEDT is provisionally using an estimate of 10,000 rooms as the first-class-and-above room base until better data can be developed. Some industry efforts are underway to better define and measure the concept of room quality from the standpoint of the industry.

County Economic Conditions

All counties showed a decline in the number of wage and salary jobs in the first three months of 1996 from the same period a year earlier. As show in the accompanying table, jobs declined 1.1 percent for Oahu, 1.3 percent for Hawaii County, 1.1 percent for Maui County, and 0.4 percent for Kauai. The lower job counts were a continuation of declines experienced in 1995. On Kauai the overall decline was primarily the result of fewer government jobs. Private sector jobs on Kauai during the first quarter were about the same as in the comparable 1995 period. More than half of the decline in jobs on Oahu was due to cutbacks in the government sector, primarily the state. For Maui and Hawaii counties, however, the percent decline in jobs was nearly as high in the private sector as in the public sector.

Unemployment was highest for Kauai and Hawaii counties at 11.5 percent and 8.9 percent, respectively, in the first three months of 1996. Maui County's unemployment rate averaged 6.9 percent in the first quarter, with Honolulu the lowest at 4.7 percent.

All counties except Hawaii appeared to benefit to some degree from the surge in visitor arrivals to the state in early 1996. Visitors to Oahu increased 11.7 percent overall in the first quarter of 1996. Intended visitors to Kauai increased 5.8 percent, while Maui showed a 1.7 percent increase. Intended arrivals to the Big Island were down 1.2 percent for the first three months of the year.

The relatively modest demand for trips to the Neighbor Islands by visitors compared with their strong interest in Oahu is somewhat discouraging. Particularly lopsided was the distribution of intended eastbound visitor arrivals in the first three months, which increased 18.7 percent on Oahu but declined 6.7 and 4.0 percent on Hawaii and Kauai, respectively. Maui County was able to make some inroads into the eastbound market with a 4.6 percent increase for the first three months, but this was still only a quarter of the Oahu rate of increase.

With respect to intended westbound visitor arrivals, Kauai showed a robust increase of 6.9 percent for the first three months of 1996, almost equaling the percent increase on Oahu. Maui County managed a 1.2 percent increase in intended westbound arrivals, while Hawaii County showed no increase from the first quarter of 1995.

Visitor room occupancy rates improved in all counties for the first quarter of 1996, ranging from a 1.2 percentage point increase for Oahu to a 5.4 point increase for Kauai. Hawaii County showed a 2.5 percentage point occupancy increase, somewhat at odds with the decline in intended visitors during the first quarter. This may reflect fewer rooms in the inventory for 1996 or it may be that a number of visitors added Hawaii County to their vacation schedule after they arrived, which is not reflected in the data for intended island visits. The low increase in occupancy on Oahu compared with the increase in the visitor count for the county partly reflects the decline in the average length of stay.

Selected Economic Indicators by County: First Quarter 1996

(Value and percent change from first quarter 1995)

Indicator	C&C of Honolulu		Hawaii		Maui		Kauai	
	Value	Percent Change	Value	Percent Change	Value	Percent Change	Value	Percent Change
Average								
Unemployment Rate[1]	4.7	0.4	8.9	-1.1	6.9	-0.3	11.5	-0.7
Total Jobs	429,600	-1.1	55,850	-1.3	61,100	-1.1	26,200	-0.4
Non-Ag. Wage & Salary Jobs	406,500	-1.0	46,550	-1.6	53,600	-1.1	23,250	-0.4
Construction	19,000	-7.1	2,400	0.0	2,050	2.5	1,300	-18.8
Retail	83,450	0.7	10,500	-4.5	13,300	-2.9	6,000	0.0
Services	120,150	-0.2	15,400	1.7	21,350	-1.8	8,000	5.3
Hotel	18,500	1.1	5,900	4.4	10,950	-2.7	3,300	15.8
Government	89,600	-3.1	10,100	-1.0	7,300	-1.4	4,000	-2.4
Non-Ag. Self-Employed	20,400	-3.5	4,550	-3.2	5,300	-1.9	1,700	-2.9
Agriculture Wage & Salary	1,950	0.0	2,500	8.7	1,800	0.0	950	0.0
Agriculture Self-Employed	750	7.1	2,200	0.0	400	0.0	300	0.0
Total Visitors[2]	1,294,490	11.7	282,240	-1.2	583,630	1.7	225,970	5.8
Westbound	617,790	7.0	236,980	0.0	483,920	1.2	204,340	6.9
Eastbound	676,700	18.7	45,260	-6.7	99,710	4.6	21,630	-4.0
Room Occupancy Rate (%)[1]	86.6	1.2	70.2	2.5	81.7	2.3	69.6	5.4

[1] Percent change column for this indicator represents the absolute change in rates rather than percent change in rates.

[2] Because of multiple island visits, the sum of total visitors by county is larger than total state visitors.

Sources: DLIR, HVB, & DBEDT, EPIS data base.

Overall Economic Conditions

Hawaii experienced a strong upturn in tourism in the first quarter of 1996 as nearly 10 percent more visitors arrived in the islands than in the comparable 1995 period. If this growth continues at even half its present rate, Hawaii will have finally gained back by the end of this year all of the visitor count lost since the slump in tourism began in 1991. However, the arrival gains are being countered somewhat by slower growth in the average daily visitor census at a rate about half that of visitor arrivals. This has been caused by a slightly shorter length of stay by visitors on average and by the continued change in the distribution of visitors from longer-staying westbound vacationers to somewhat shorter-staying eastbound visitors. As a result, it may be 1997 before all indicators of visitor industry activity recover to pre-recession levels. Reaching the pre-recession peak is important for Hawaii's overall economic recovery because it will encourage new investment in the visitor industry.

Eastbound visitor arrivals, mainly from Japan and other Asian countries, continued to lead the tourism recovery, with an 18.2 percent surge in the first quarter. This sharp increase was due in part to depressed growth during the same period last year in the aftermath of the Kobe earthquake and also because February had an additional day due to the leap year. Yet eastbound arrivals in the first quarter were also 17 percent above arrivals in the comparable period of 1994, suggesting that in spite of the low base in early 1995, the strong growth in first quarter eastbound arrivals is not simply a statistical fluke.

Westbound visitor arrivals also contributed to the early 1996 upturn with a more than 4 percent increase in the first quarter of the year. The westbound increase was at least partly related to the unusually long and cold weather on the U.S. mainland and Canada this past winter.

Outside of tourism, the economy as a whole was also showing some improvement. Taxable business sales reported in the first quarter showed a 3.8 percent increase from the year before. This is above the 2.5 percent rate of consumer inflation currently projected by DBEDT for 1996, suggesting that business activity is gaining in real terms.

Hawaii's unemployment rate averaged 5.8 percent for the first quarter of 1996, down slightly from 6.0 percent in the same 1995 period.

On the surface, the most lagging indicator of economic activity has been the total statewide jobs count, which was down 1.1 percent, or about 6,400 jobs in the first quarter of 1996 from a year earlier. However, more than half of this decline or about 3,400 jobs was from cutbacks in state government, which has been downsizing to better fit the growth of revenues and improve efficiency. When all levels of government are excluded, the decline in private sector jobs for the first quarter was 0.7 percent below the same 1995 period.

Currently, the greatest source of drag on the jobs count in the private sector is construction, which showed a 6.4 percent decline in the first quarter of 1996. However, the decline in construction activity may be easing up. Recently there has been some hopeful signs in terms of the value of construction completed. During the last quarter of 1995, construction receipts reported for state excise tax purposes showed a 1.6 percent increase from the same quarter of 1994—the first such quarterly increase in four years. More recent data, covering the first three months of 1996, show the trend continuing with a 6.2 percent gain in reported construction receipts. Construction may still have some rough months ahead, but the worst may be over.

Another key sector of the economy appears to be picking up steam. By the end of March, retailing establishments had reported a 7.0 percent increase in taxable sales compared with the first three months of 1995.

As business sales continue to increase faster than the inflation rate, hiring will tend to accelerate, although businesses may be cautious about hiring until the upturn is well established.

Economic Outlook

The fundamental economic factors that affect Hawaii's tourism markets such as U.S. and Japan economic growth continue to be modestly positive. Both economies are expected to grow just under 2 percent in 1996. Forecasts of economic growth for 1997 are slightly better than for 1996, with the U.S. growth rate at just over 2 percent and Japan's growth between 2 and 3 percent.

Table 1. Hawaii Economic Forecast to 1997

Economic Indicator	Actual		Estimated	
	1994	1995	1996	1997
Total Population (thousands)	1,178.3	1,186.8	1,198.7	1,210.7
Visitor Arrivals (thousands)	6,430.3	6,633.8	6,965.5	7,244.1
Honolulu CPI-U (1982 – 84=100)	164.5	168.1	172.3	176.6
Personal Income ($ millions)	28,335.0	29,359.0	30,499.5	32,003.8
Real Personal Income (millions of 1987 $)	19,791.4	20,065.2	20,336.3	20,818.4
Total Jobs (thousands)	582.1	576.1	582.7	591.3
Gross State Product ($ millions)	31,965.3	32,723.7	34,229.0	35,940.4
Real Gross State Product (millions of 1987 $)	23,190.3	23,297.8	23,837.8	24,467.0
Gross State Product Deflator (1987=100)	137.8	140.5	143.6	146.9
Percent change from previous year				
Total Population	1.1	0.7	1.0	1.0
Visitor Arrivals	5.0	3.2	5.0	4.0
Honolulu CPI-U	2.7	2.2	2.5	2.5
Personal Income	3.2	3.6	3.9	4.9
Real Personal Income	0.5	1.4	1.4	2.4
Total Jobs	-1.3	-1.0	1.1	1.5
Gross State Product	2.5	2.4	4.6	5.0
Real Gross State Product	0.0	0.5	2.3	2.6
Gross State Product Deflator	2.5	1.9	2.2	2.3

Source: Research and Economic Analysis Division, DBEDT.

Given this expectation for slow but steady growth and stable inflation, DBEDT expects that the recovery in the growth growth continue to be modestly positive. Both economies are expected to grow just under 2 percent in 1996. Forecasts of economic growth for 1997 are slightly better than for 1996, with the U.S. growth rate at just over 2 percent and Japan's growth between 2 and 3 percent.

The state's overall jobs count should begin to show improvement as the year unfolds, with a 1.1 percent overall increase expected for 1996. Accelerating gains in trade and service jobs may be tempered by continued modest decline in construction jobs, although if construction receipts continue to show improvement, the jobs situation in that industry could also improve. A 1.5 percent increase in total jobs is expected for 1997.

Overall, Real Gross State Product should grow between 2 and 3 percent in 1996 and 1997. DBEDT expects inflation, as measured by changes in the Honolulu Consumer Price Index, to remain at the current low level: about 2.0 to 2.5 percent through 1997.

The next milestone in Hawaii's gradual economic recovery after renewed growth in jobs will be a new investment cycle as the pre-recession peaks in tourism and other industries are exceeded in the coming year or two. That next cycle is not expected to match the 21 percent-per-year average increase in construction value experienced during the last investment cycle in the late 1980s. However, it should help pull the construction industry out of its current slump and accelerate growth overall as new investment money is injected into the economy, adding to the contribution being made by increasing visitor expenditures.

Selected Economic Indicators: State

SERIES	1995	1996		Percent change from same period in previous year (except where noted)		
				1995	1996	
	Annual	First Quarter	March	Annual	First Quarter	March
Civilian Labor Force (persons)	579,800	585,250	584,700	-0.5	1.2	1.4
Civilian Employment	545,800	551,550	552,200	-0.3	1.1	1.1
Civilian Unemployment	34,000	33,700	32,500	-3.7	3.3	5.7
Unemployment Rate (percent)[1]	5.9	5.8	5.6	-0.2	0.2	0.3
Total Jobs (number)[3]	576,200	573,000	576,100	-1.0	-1.1	-1.2
Total Non-Agr. Wage & Salary	532,700	530,000	532,850	-0.7	-1.0	-1.2
Contract Construction	26,400	24,800	24,500	-9.6	-6.4	-8.1
Manufacturing	16,950	16,600	16,550	-4.5	-0.9	-1.5
Trans., Comm., Utilities	40,700	42,750	40,650	-2.6	0.7	0.1
Trade	135,650	134,700	134,450	1.8	-0.4	-0.7
Retail	114,150	113,350	113,100	2.1	-0.3	-0.6
Finance, Insur. & Real Estate	37,100	37,050	37,100	-3.4	-0.3	-0.7
Services & Miscellaneous	164,800	164,950	165,550	0.5	0.0	-0.3
Hotels	37,900	38,700	38,850	-0.3	1.6	2.5
Government	111,050	111,050	114,050	-0.7	-2.8	-2.2
State	63,950	64,200	67,050	-1.6	-5.0	-4.2
Federal	30,700	30,600	30,600	-1.8	0.5	0.5
Agriculture Wages & Salaries	7,300	7,300	7,300	-8.8	2.8	4.3
Agriculture Self-Employed	3,850	3,650	3,650	0.0	0.0	-1.4
Non-Agr. Self-Employed	32,350	32,050	32,300	-5.0	-3.0	-2.0
($ thousands)						
State General Fund Tax Revenue	2,614,713	725,292	195,750	-2.2	8.0	14.8
Trans. Accom. Tax Revenues[2]	105,618	34,193	13,160	22.1	25.6	37.3
General Excise & Use Tax Base	45,577,029	12,323,915	3,881,251	2.4	3.8	5.9
Retailing Tax Base	15,050,113	4,206,452	1,294,920	3.3	7.0	9.2
Services Tax Base	5,351,079	1,372,411	419,169	1.5	0.1	-7.8
Contracting Tax Base	3,133,510	824,545	272,646	-5.7	6.2	18.8
Hotel Rental Tax Base	1,776,527	518,041	201,984	6.6	8.3	11.8
Producing Tax Base	457,538	124,210	30,264	-2.1	1.5	-24.0
Visitor Arrivals (persons)	6,633,840	1,752,910	602,460	3.2	9.5	6.0
Westbound Visitors	3,977,820	1,054,760	366,280	-0.5	4.4	2.6
Eastbound Visitors	2,656,020	698,150	236,180	9.2	18.2	11.6
Hotel Occupancy Rates (percent)[1]	76.6	82.0	79.8	0.0	2.0	0.7

[1] Change represents absolute change in rates rather than percentage change in rates.
[2] Trans. accom. tax exemptions due to Hurricane Iniki sunsetted after 12/31/94, and tax rate also increased from 5 to 6 percent beginning July 1, 1994.
[3] Labor force and job averages are based on monthly rounded data, and total jobs includes jobs involved in labor disputes.

Sources: U.S. Bureau of Labor Statistics, Hawaii Dept. of Labor and Industrial Relations, Dept. of Taxation, Hawaii Visitors Bureau, and PKF-Hawaii. Compiled by Economic Planning Information System, READ, DBEDT.